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FISCAL IMPACT STATEMENT

LS 7517

BILL NUMBER: SB 549

NOTE PREPARED: Apr 4, 2011

BILL AMENDED: Feb 7, 2011

SUBJECT: Indiana Public Retirement System.

FIRST AUTHOR: Sen. Boots

FIRST SPONSOR: Rep. Torr

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes the Indiana Public Retirement System (System) to administer and manage:

1. The Public Employees' Retirement Fund (PERF);
2. The Teachers' Retirement Fund (TRF);
3. The Judges' Retirement Fund;
4. The Prosecuting Attorneys Retirement Fund;
5. The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund;
6. The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
7. The Legislators' Retirement System;
8. The Pension Relief Fund;
9. The Special Death Benefit Fund; and
10. The State Employees' Death Benefit Fund.

The bill creates a nine-member Board of Trustees (Board) for the system appointed by the Governor as follows:

1. At least one member with experience in economics, finance, or investments;
2. At least one member with experience in executive management or benefits administration;
3. The Director of the Budget Agency (or designee) serving as an ex officio voting member;
4. Two members nominated by the Speaker of the House of Representatives: one an active or retired police officer or firefighter who is a member of the 1977 Fund and one TRF member;
5. Two members nominated by the President Pro Tempore of the Senate: one PERF member and one TRF member;

6. One member nominated by the Auditor of State: the Auditor of State or an individual with experience in professional financial accounting or actuarial science; and
7. One member nominated by the Treasurer of State: the Treasurer of State or an individual with experience in economics, finance, or investments.

The bill requires that initial appointments to the board give a preference for those individuals who, on June 30, 2011, are serving as trustees of PERF and TRF, and provides that a PERF or TRF trustee appointed to the board serves until the trustee's term would have expired under prior law. It provides for a four-year term for trustees. This bill provides that a trustee is strongly encouraged to complete annually at least 12 hours of trustee education. It provides that five trustees constitute a quorum and requires a majority vote of the trustees present in order for the board to adopt a resolution or take other action at a regular or special meeting.

The bill requires the system's chief investment officer and the officer's staff to file annual financial disclosure statements with the Inspector General. It provides that the board's powers and duties are the combined powers and duties of the PERF and TRF boards. The bill also provides that each retirement fund continues as a separate fund managed by the board. It provides for a director of the system who is appointed by and serves at the pleasure of the board. The bill provides that employees of PERF and TRF remain members of those funds. It also provides that new hires of the system become PERF members, unless the director expressly determines otherwise.

The bill allows the board to establish contribution rate groups for PERF, and removes the requirement that each employer have a separate account within the retirement allowance account.

The bill eliminates the 1977 Fund advisory committee.

The bill authorizes the board to adopt rules without complying with IC 4-22-2 in establishing impairment standards, a list of excludable medical conditions, and standards and tests for the baseline statewide physical examination for the 1977 Fund.

The bill repeals provisions that establish the PERF and TRF boards and require PERF and TRF to hire a common director. It also repeals corresponding definitions and cross-references.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *Summary:* The total impact of this proposal on the PERF and TRF pension funds will depend on complete implementation and the extent to which economies of size are achieved, both in lowering administrative and investment costs, along with generating higher investment returns. PERF estimates administrative cost savings of about \$6 M annually from combining the administration of the funds. The bill also eliminates one Executive Director position and reduces the number of overall trustees.

Background - Indiana Public Retirement System: The following table shows the administrative and investment expenses for PERF and TRF for FY 2010.

FY 2010 Expenses	PERF	TRF
Administrative	\$27.18 M	\$ 7.86 M
Investment	\$75.80 M	\$42.89 M
Total	\$102.98 M	\$50.75 M

Explanation of State Revenues: *Indiana Public Retirement System:* The pooling of assets also could generate higher investment returns and lower investment costs for the pension funds. PERF and TRF estimate that the pooling of assets could generate an additional 0.2% in investment return. As of June 30 , 2010, PERF net assets amounted to \$14.0 B, and TRF net assets were \$8.1 B. Combined net assets totaled \$22.1 B. The 0.2% increase in investment return is the equivalent of approximately \$44.2 M in incremental annual investment returns.

Explanation of Local Expenditures: *Indiana Public Retirement System:* The bill may also provide some administrative efficiencies to local employers.

Explanation of Local Revenues:

State Agencies Affected: TRF; PERF-administered pension funds;

Local Agencies Affected: Units with members in PERF-administered pension funds; School corporations with members in TRF.

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